WAGES TAXATION – A CONTEMPORARY ECONOMIC PROBLEM

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Abstract:

There is variability in equity within and between the states. Policy makers must be cognizant of fiscal disparities within states and between states and take the appropriate action to ensure that each taxpayer is equal with the other one. With a history of over 18 years in labor taxation, Romania is characterized by a multitude of changes in wages tax laws. They are summarized in three steps: wages taxation by monthly progressive tax, wages taxation by overall annual progressive tax and wages taxation by flat rate of 16%.Efficiency of one or another taxation system has been and will be discussed further by different researchers trying to answer to the question: "who is the best solution, based on the progressive taxation of wages or the flat tax?" Progressive income tax help achieving fiscal equity through tax, while a flat tax contribute to equity before tax. We consider that it is not important the type of tax matter, but it is important its level, ultimately the tax is an assault on the taxpayer.

Keywords: *income tax, wages taxation, flat tax, progressive tax*

1. Introductory concepts of taxation and tax equity

There is variability in equity within and between the states. Policy makers must be cognizant of fiscal disparities within states and between states and take the appropriate action to ensure that each taxpayer is equal with the other one. It is well known and accepted that there are “rich” and “poor” people and how unjust and short-sighted is this fiscal system anywhere on world. The main idea is that every one should contribute to public expenses in proportion to his means. Equality should be the rule and aim of taxation. Important is what should and what should not be taxed. What is a good tax? A good tax is a neutral, efficient, equitable, simple, stable, sufficient tax.

To form the necessary revenues for its needs, the government usually applies taxes by different criteria, the most important are those of fiscal and social justice and those of efficiency (N. Grigorie-Lăcriţa, 2008, pg. 5):

- *Tax fairness criteria* suppose applying taxes depending on the size of income and / or property of every person, otherwise the power of each individual and corporate entity to pay taxes is depending on the size of revenue and / or assets owned;

- *Social equity criteria* require that the determination of taxes should take into account the taxpayer's family situation, how many people without income or low income is in the family, the need to restrict the use of products that are harmful for the physical and moral health of the population, the stimulate development of economic activities;
- *Efficiency criteria* consist in determining taxes with a low cost of collecting them.

The theory of utility can be successfully used in order to emphasize the principles of fiscal equity which are the basis of every modern fiscal system. Most basic textbooks in public finance enumerate the principles of taxation in a very clear form, and they constitute benchmarks against which to measure the soundness of any particular tax. They are listed as few as three or as many as eight such principles but little disagreement exists as to their substance, regardless of ideology or government. Adam Smith identified at the end of the XIX-th century the following tax principles: rightness, certainty, comfort and efficiency. The fiscal equity is defined by financial theory as social justice and its existence is presumed by the observance of the following conditions: differentiated taxation of the revenues and fortunes; non-taxable minimum income; the correlation of fiscal duties; the generality of taxation. But equality does not require that all men should be taxed alike, or that all things should be taxed alike. It merely requires that whatever taxes are imposed shall be equally imposed upon the persons or things in like conditions or situations; it merely requires that no citizen shall be given an advantage, or put at a disadvantage, as compared with other citizens (M. Pagliacci, C. Anghelache, D. Armeanu, 2008, pg. 4 http://www.ectap.ro/articole/322.pdf).

The principle of equity is central to any discussion of taxation and public money. Fairness can be evaluated according to what is termed "horizontal equity" - the extent to which those in similar circumstances will pay similar tax burdens, and "vertical equity" - how well those in different classes bear different burdens in the tax structure (H. William Batt, 2005, http://www.cooperativeindividualism.org/batt-h-william_painless-taxation.html). It is this latter perspective that leads to the use of terms like "proportional," "progressive," and "regressive" in referring to tax structures. A tax is *progressive* if the ratio of tax revenue to income rises when moving up the income scale, *proportional* if the ratio is constantly, and *regressive* if the ratio declines. Income taxation fiscal equity suppose imposing the income of a person depending on its presumed contributive ability related to the taxpayer. It involves identifying all taxable income, minimum vital income allowance, personal deductions to ensure personalization of taxation and to ensure progressive amount of tax in relation to the size of taxable material. Diversity of fiscal policy decisions affect technical characteristics of individuals income taxation.

The salary represents the price of the labour made by the employee according to an individual employment contract (Law no. 53 / 2003 of Work Code with subsequent amendments and completions, art. 154). Explanatory Dictionary of Romanian Language defines the salary as a "sum of money that a person receives for its work over a period of time”. The term "salary" comes from the Latin "salarium”. Returning to the lineage of the word, we learn that "salary" comes from the "salt". Besides proper pay pocket, Romanian soldiers received "salarium", a share of salt. Later, they received a cash supplement as result of their work instead of the salt, which was still "salarium" from which to buy their own salt. Over time, as "salarium" they understand the whole payment. Moving in the Romance languages, the word makes the sense that we know today – “salary”.

Beside “salary” is also used the terms of “payment” and “remuneration”, also of Latin origin, and “the allowance”, equivalent of the remuneration of elected or appointed officials. The right to get salary is said in the "Declaration of Human Rights”, which states that: "1. Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment. 2. Everyone, without any discrimination, has the right to equal pay for equal work. 3. Everyone who works has the right to just and favorable remuneration that assure both himself and his family an existence worthy of human dignity and supplemented, if necessary, by other means of social protection" (UN Declaration of Human Rights, 1948, art. 23, http://www.onuinfo.ro/). Salary is the price at which is dealing the labor inputs. Regardless of which view is addressed wages definition, the conclusion must be the only one, namely that it is a particular notion of the market economy, which is manifested according to the specific labor market. Men do not work for the pleasure of working, but to get the things their work will give them.

Revenue taxation in general, and of wages in particular, know more ways of being put into practice, in which flat tax dispute the first place with progressive tax imposed by multiple, ascendin rate. But each method of taxation presents both advantages and disadvantages seen in terms of state and the taxpayer. An ideal tax on wages in terms of state implies a large tax base and in terms of taxpayers implies personal deductions large enough so as to exclude low-income taxpayers from tax, providing a progressive tax based on revenue size. The principle of equality before taxes is made by using a flat taxation. This involves applying the same tax rate without regarding the size of the taxable object, always keeping the same ratio between tax and the volum of income or property value. Introduction the flat rate taxation is a step forward towards imposing through a fixed quota or amount. It does not respect the principle of tax equity, it does not take into account the contribution power of different social classes depending on the absolute size of income they made and depending on the absolute value of the assets they possess.

Discussions on tax reform are considering usually three types of taxation: flat tax, progressive tax and a dual system, a combination of the first two. If the flat tax was a rule in all industrialized countries, in the first half of the nineteenth century, first pronounced loud calls for a "strong or gradually progressive tax" appeared in the Communist Manifesto of Karl Marx in 1848 (A. Gamanjii, 2008). Efficiency of one or another system of taxation has been and will be discussed further by different researchers trying to answer the question "who is the best solution, income taxation based on the progressive or on the flat tax?" Taxation using progressive rate is characteristic of the nineteenth century and the twentieth century. Imposing progressively assumed that with increasing income takes place and increase in the tax rate so that tax is growing faster than taxable object. In the financial practice the progressive taxation know two variants namely: simple progressive taxation (global) and compound progressive taxation (in installments). A drop in gradual taxation in favor of proportional one it is not just a set of technical changes in taxation, but it is another vision of fiscal policy, a liberal, competitive and encouraging one for those who work or for specific activities that bring incomes (D. Morar, 2005, pg. 302).

Many changes in the tax law, due to the need for harmonization of European tax systems, have led to fundamental changes in the way of settlement and collection of taxes and fees. Currently, the top personal income rate amounts to 37.8%, on average, in the EU. This rate varies very substantially within the Union, ranging from a minimum of 10 % in Bulgaria to a maximum of 59 % in Denmark. Despite a wide consensus on the desirability of lower taxes on labour, the levels of the income taxe rate on labour confrm the widespread dificulty in achieving this aim. Although the tax burden on labour is of the peaks reached around the turn of the century, the downward trend essentially came to a halt in the euro area as several countries witnessed increases in the last few years (European Comission Official Publication, "*Taxation trends in the European Union*", 2009, pg. 16). However, in the Central and Eastern European Member States, the decline in the income taxe rate on labour is more pronounced.

Empirical researches show that the application of a low value for tax rate is highly correlated with the level of taxes. If the tax rate is lower, than the probability of being collected is higher. Experts speak about the trend on the introduction of flat tax in European countries, which is manifested consistently and coherently, and that starts in Eastern Europe, going to the Western continent (C. Somanescu, 2009, http://standard.money.ro/articol_86505/analiza___istoricul_cotei_unice.html). Estonia was the first country which adopted in 1994, flat tax rate of 26% for individuals income, increasing the basic personal deduction too.

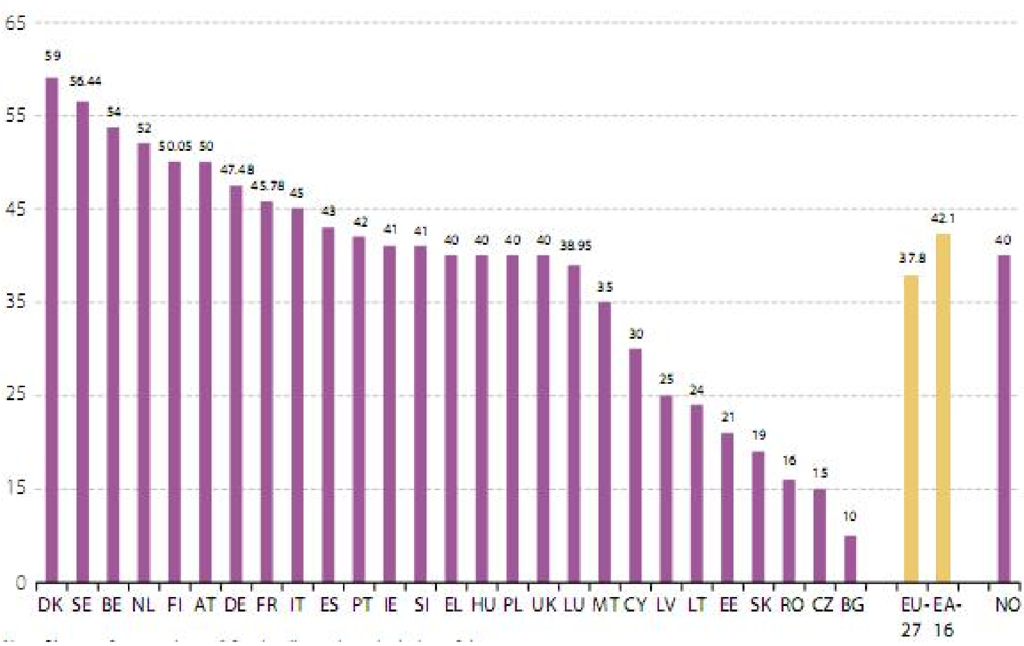

Figure No. 1 EU-27 Top personal income tax rate

Source : Eurostat, „Taxation trends in the European Union", 2009, pg. 8. The top statutory personal income tax rate refects the tax rate for the highest income bracket. In most Member States the personal income tax contains several rates.

Lithuania was the second European country that also adopted in 1994 the highest flat tax rate of 33% as compared with countries that have adopted it later, also it increased the basic personal deduction amount to protect low-income taxpayers. Subsequently, Lithuania reduced the flat at 27% in July 2007, and 24% in 2008. Latvia has adopted the flat tax in 1997, registering a level of 25%. Slovakia adopted the flat tax in 2004 at the level of 19% for individuals' income, followed by Georgia in 2005, which introduced the single rate of 12% for individuals' income. On January 1, 2005, Romania adopted the single rate of 16% applied for the nature of wage income. In 2007, Macedonia and Bulgaria have adopted flat income tax for individuals by 12% and 10%. For Bulgaria, the flat became operational in 2008. Also in 2008 was the year when Albania and Czech Republic have introduced flat tax of 10% and 15% for the Czech Republic.

2. Wages taxation by flat or progressive tax

In most states of the world citizens' income is an irreplaceable source for public financial resources. For Romania, the wages tax revenue ranks second place among the top sources of public money, followed by VAT and duties. From a total of 64,784 million lei revenue tax in 2009, 22.78% are the wage tax, with 1.43 percentage points more than in 2008. State Budget Law of Romania for the past two years estimates income tax revenue exceeding 14,761 million in 2009 (approximately 3,500 million EUR), up from 12,848 million lei in 2008.

Law No. 32 of March 29, 1991 of payroll tax had in force in Romania the tax on incomes from wages, applied since 01.04.1991. Currently, the legal base is the 3rd Chapter of the 3rd Title of the Fiscal Code, approved by Law no. 571/2003 with subsequent amendments and completions. The taxpayers are resident natural persons that carry out an activity on the basis of an individual labor contract or a special status provided by law. The tax is set by the central authorities, the tax collector is the State budget. Payers of salaries and incomes assimilated to salaries are required to compute and withhold the tax related to the income of each month, on the date of payment of such incomes, as well as to resolve it to the State budget on or before the 25th of the month that follows the month for which such incomes are paid.

With a history of over 18 years in labor taxation, Romania is characterized by a multitude of changes in tax laws on wages, summarized in three significant steps as:

a. Wages taxation by monthly progressive tax since 1991. Article 7 of Law No. 32/1991 provides that payroll tax is calculated monthly for each job, based on 13 progressive income bands as you can see in the table below. Wage tax calculated under this Law shall be reduced by 20% for those with one or more children and including older employees up to 25 years, without children. After 2 years, authorities issued Law no. 35/1993 which modifies the scales of wages taxation as follows. Taxable income of a month that exceeded the 300,000 lei were required to a tax rate of 60%.

Table no. 1 Monthly progressive wages taxation

Table data are expressed in ROL (old national currency), existing before RON (new national currency)

1991		1993	
Monthly taxable income - lei	Monthly tax - lei	Monthly taxable income - lei	Monthly tax - lei
to 500 lei	6%	to 2.700	5%
501 - 600 lei	30 lei + 10%	2. 701 - 3.000	135 + 8%
601 - 700 lei	40 lei + 18%	3.001 - 4.000	159 + 14%
701 - 1.200 lei	58 lei + 22%	4.001 - 6.800	299 + 17%
1.201 - 2.000 lei	168 lei + 23%	6.801 - 11.000	775 + 18%
2.001 - 3.000 lei	352 lei + 24%	11.001 - 16.400	1.531 + 19%
3.001 - 5.000 lei	592 lei + 25%	16.401 - 27.700	2.557 + 20%
5.001 - 7.000 lei	1.092 lei + 26%	27.701 - 38.600	4.817 + 21%
7.001 - 10.000 lei	1.612 lei + 28%	38.601 - 54.900	7.106 + 22%
10.001 - 15.000 lei	2.452 lei + 31%	54.901 - 82.400	10.692 + 25%
15.001 - 20.000 lei	4.002 lei + 35%	82.401 - 110.000	17.567 + 28%
20.001 - 25.000 lei	5.752 lei + 40%	110.001 - 137.500	25.295 + 32%
over 25.000 lei	7.752 lei + 45%	137.501 - 157.400	34.095 + 36%
		over 157.400	41.259 + 40%

Source: Law no. 32/1991, Law no. 35/1993

b. Wages taxation by overall annual progressive tax since 2000.

Ordinance on Income Tax No.73 of August 27, 1999 (Official Gazette No. 419/31 August. 1999) comes with a new methodology for determination of income tax, considering the taxable period as fiscal year, which corresponds to the calendar year. Global annual taxable income is the sum of net income realized from self-employment, salaries, the use of property disposal, obtained by Romanian natural persons, minus personal deductions and tax losses carried forward. Global annual income tax is the amount payable by an individual for income made in a fiscal year, determined by levying tax on global annual taxable income calculated under the law above. Personal deduction is an allowance given to the taxpayer, including the basic personal deduction and additional personal deductions, according to its own situation or dependents.

Personal deductions fall into two categories: *basic personal allowances and additional deductions*. They are given for each month period. Since early January 2000, basic personal deduction is set at the amount of 800,000 lei (80 RON) per month and is awarded to every taxpayer, regardless of personal situation. Personal deduction is calculated according to the additional basic personal deduction, as follows:

a) a basic personal deduction multiplied by 0.6 for spouse located / dependents;
b) a basic personal deduction multiplied by 0.35 for each of the first two children and by 0.20 for each subsequent dependent children;
c) a basic personal deduction multiplied by 0.20 for each other dependent family member. The total amount of personal deductions could not exceed 2.5 times the basic personal deduction and taxable income shall be paid for. Since early January 2004, Law no. 571/2003 on the Tax Code provided a basic personal deduction equal to the sum of 2,000,000 lei (200 RON) per month. Supplementary personal deduction for spouse, children or other family members, dependents was 0.5 times the basic personal deduction. The amount of personal deductions allowed for tax calculation can not exceed 3 times the basic personal deduction.

Taxpayers were required to complete and submit to the fiscal authority a declaration of global income and special statements on each category of income. The fiscal authority established the annual income tax due for the previous year and issued a taxation decision. The taxation decision also stated the differences in annual tax liabilities due or annual tax refund to be determined by subtracting the annual income tax payable as advance payments of tax.

This labor taxation stage is remarkable by reducing the number of installments of progressive taxation as in the following table:

Table no. 2 Global annual progressive wages taxation

Table data are expresed in the new national currency,
1 new leu RON = 10,000 lei old leu ROL

2000		2004	
Annual taxable income bands - lei	Annual tax - lei	Annual taxable income bands - lei	Annual tax - lei
to 1100	18%	to 2880	18%
1101 - 2700	198 + 23%	2881 - 6960	518.4 + 23%
2701 - 4300	566 + 28%	6961 - 11160	1456.8 + 28%
4301 - 6000	1014 + 34%	11160 - 15600	2632.8 + 34%
over 6000	1592 + 40%	over 15600	4142.4 + 40%

Source: Ordonanta no. 73/1999, Law no. 571/2003 with subsequent amendments and completions 2004

c. Wages taxation by flat rate of 16% since 2005. The year 2005 stands out as a year of tax macro-decisions in terms of wage taxation in Romania, namely progressive taxation system scores the transition to wage taxation system to each income apart. Since 2005 Romania has a unique flat tax rate of 16% applied to taxable income from wages, income from the use of property disposal, income from the retirement of capital gains or income from freelance activities etc.

Law no. 571/2003 updated in 2009 includes as taxable wages the allowances, bonuses, premiums and benefits in kind. According to article 55 of the mentioned law are considered similar wages, but non-taxable, funeral aid, childcare vouchers and meals, the value of travel expenses for transportation between place where employees are domiciled and location of their place of work at the level of a monthly subscription or salaries of people with severe disabilities etc. Individuals are entitled to the deduction of net monthly income from wages to an amount as personal allowances for each month for wages from the basic function.

Personal deduction is granted for individuals who have a gross monthly income of up to 1,000 lei including the following (Law no. 571/2003 with subsequent amendments and completions): - for taxpayers who don't have dependent persons - 250 lei, - for taxpayers who have a dependent person - 350 lei, - for taxpayers who have two dependent persons - 450 lei, - for taxpayers who have three people in maintenance - 550 lei, - for taxpayers who have four or more dependent persons - 650 lei. For taxpayers who have monthly gross incomes from salary between 1001 and 3000 lei lei, personal deductions are degressive as compared to ones from above. For taxpayers who get incomes from the monthly gross salary of more than 3,000 lei not provide personal deduction. Dependent persons can be spouse, children or other family members, relatives of the taxpayer or spouse to the second degree inclusive, whose income, taxable and tax-free, do not exceed 250 lei per month.

Recipients of wages due a monthly final income tax. It is calculated and withheld at source by the payers of income by levying 16% on the base. Taxable income from wages is calculated by deducting from gross income the social contributions, the personal deduction for that month, the union membership fee paid in the month and other contributions to voluntary pension funds, so that in the yearly amount to not exceed the equivalent in RON of 400 euro.

Hypothetical study case: Suppose we want to calculate the wage tax burden actually borne by a person who has only one source of income, namely he has a salary of 1,693 lei / month (option A) or 600 lei / month (option B). He has a minor child. Let's see the fiscal burden in terms of applying a flat tax versus a progressive tax available in 2004:

Flat tax – 2009 Option A	Progressive tax – 2004 Option A
1. Gross salary = 1693 lei 2. Pension contribution 10.5% = 178 lei 3. Health contribution 5.5% = 93 lei 4. Unemployment contribution 0.5% = 8 lei 5. Personal deduction = 350*[1-(1693-1000)/2000] = 230 lei 6. Taxable salary = 1-2-3-4-5= 1184 lei 7. Tax = 1184*16% = 189 8. Net salary = 1-2-3-4-7 = 1225 lei	1. Gross salary = 1693 lei 2. Pension contribution 9.5% = 161 lei 3. Health contribution 6.5% = 110 lei 4. Unemployment contribution 1% = 17 lei 5. Basic personal deduction = 200 lei 6. Supplimentary personal deduction = 200*0.5 = 100 lei 7. Taxable salary = 1-2-3-4-5-6= 1105 lei 8. Tax = 219.4+34%*(1105-930) = 219.4+59.5 = 278.9 9. Net salary = 1-2-3-4-8 = 1126.1 lei
Flat tax – 2009 Option B	**Progressive tax – 2004 Option B**
1. Gross salary = 600 lei 2. Pension contribution 10.5% = 63 lei 3. Health contribution 5.5% = 33 lei 4. Unemployment contribution 0.5% = 3 lei 5. Personal deduction = 350 lei 6. Taxable salary = 1-2-3-4-5= 151 lei 7. Tax = 151*16% = 24 lei 8. Net salary = 1-2-3-4-7 = 477 lei	1. Gross salary = 600 lei 2. Pension contribution 9.5% = 57 lei 3. Health contribution 6.5% = 39 lei 4. Unemployment contribution 1% = 6 lei 5. Basic personal deduction = 200 lei 6. Supplimentary personal deduction = 200*0.5 = 100 lei 7. Taxable salary = 1-2-3-4-5-6= 198 lei 8. Tax = 198*18%= 36 lei 9. Net salary = 1-2-3-4-8 = 462 lei

Source: Data calculated by author

The perspective of taxpayers:

Transition from progressive income taxation to flat tax corroborated with changes in the determination of personal deductions have signified, for Romania, a decrease in the wage tax burden: 1. from 16.47% in 2004 to 11.16% in 2009 for high income employees, 2. from 6% in 2004 to 4% in 2009 for low-income employees. We should mention one important effect of these tax macro-decisions, namely that they favor high-income taxpayers and they don't favor those with low incomes. Wage tax burden fell by 5.31 percentage points for those with high income as compared with a reduction of only 2 percentage points for those with low incomes. All employees benefit from the decrease of social contributions by 0.5% overall (from 17% in 2004 to 16.5% in 2009).

People with low wages benefit of an increase of the minimum basic personal deduction from 200 lei to 250 lei. In contrast, those with high income are facing with a decrease in personal deduction as their wages increases, reaching zero personal deduction. But relevant differences are observed in decreasing the amount of tax on wages, which lead us to say that people with high salaries are significantly favored by the flat tax as compared to those that have low monthly incomes. In other words, a progressive income tax contributes to tax equity through tax, while a flat tax contribute to equity before tax.

The perspective of state

The question is what implications have these fiscal macro-decisions on public financial flows, directed from taxpayers to the state budget as taxes on wages due by citizens and what are their economic effects? We will give attention to estimates of governance in terms of receivable amounts by the state budget of Romania as income tax, following in a next paper to detail their actual execution and to analyze wage tax collection.

In terms of income tax contribution to the public revenue should be noted that in Romania it ranks second place among the top sources of public financial resources by a growing share of around 20% in total revenue tax. On the first rank is the resource based on VAT. In other words, the population income tax system should not be neglected at all, because any change in it is reflected in short time in the amount of revenue collected by state, by default in the amount of sums available to the State to achieve its expenditure.

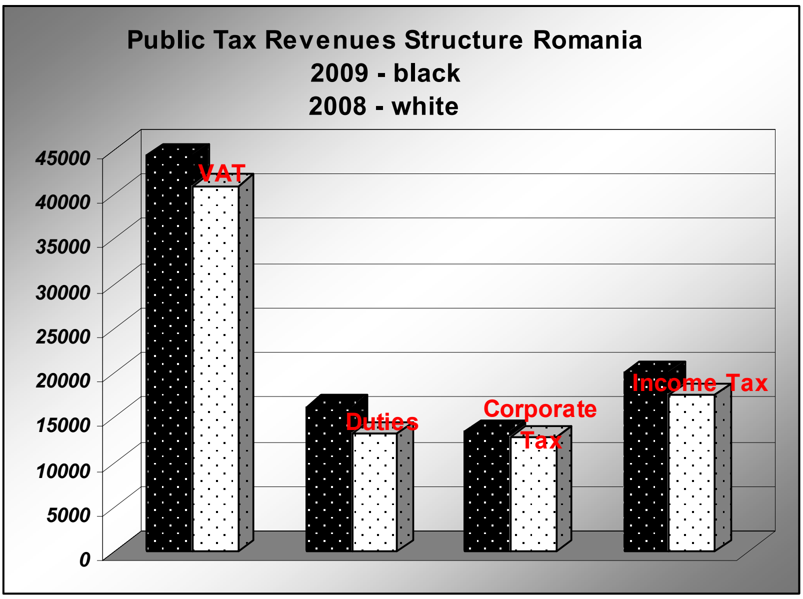

Figure no. 2

As can be seen in the table below, the tax on salaries between 2006-2009 held a share of about 73% in total revenue tax. This share has not suffered significant fluctuations, it is almost keeping constant. Year 2009 comes with the following structure of estimated income tax: 73.78% tax on salaries, 9% dividend income tax, 5% real estate income tax, 4% self-employment income tax, 3% tax on income from pension and other income taxes.

Table no. 3 Tax on wages as % of Income Tax Revenues Romania

Year	Wages tax Mil RON - estimations	Revenues tax Mil RON - estimations	Revenues from tax on wages as % of total income tax revenues	Fiscal revenues Mil RON - estimations	Revenues from tax on wages as % of total tax revenues
2006	6150.8	8429.2	72.97	40486.6	15.19
2007	9879.2	13036.5	75.78	52158.8	18.94
2008	12848.2	17482.5	73.49	60175.5	20.74
2009	14761.0	20006.1	73.78	64784.0	22.78

Source : Data processed from the annexes to the State Budget Law of Romania 2006-2009

Noteworthy is the authorities optimistic approach to estimate public revenue as tax on wages, so that in 2009 the authorities have projected an increase of 2.3 times of income tax receivable to the budget, over 14,761 million lei compared to just 6,150.8 million lei in 2004, in terms of transition to a taxation system based on a flat tax of 16%. It is hard to believe that in a short period of time tax on wages will have such a development, taking into account the influence of inflation. Authorities have relied on reducing tax evasion acts in labor sector, on the transformation of escapist taxpayers in honest taxpayers, on reducing the number of cases of illegal employment («black work») without having individual work contract.

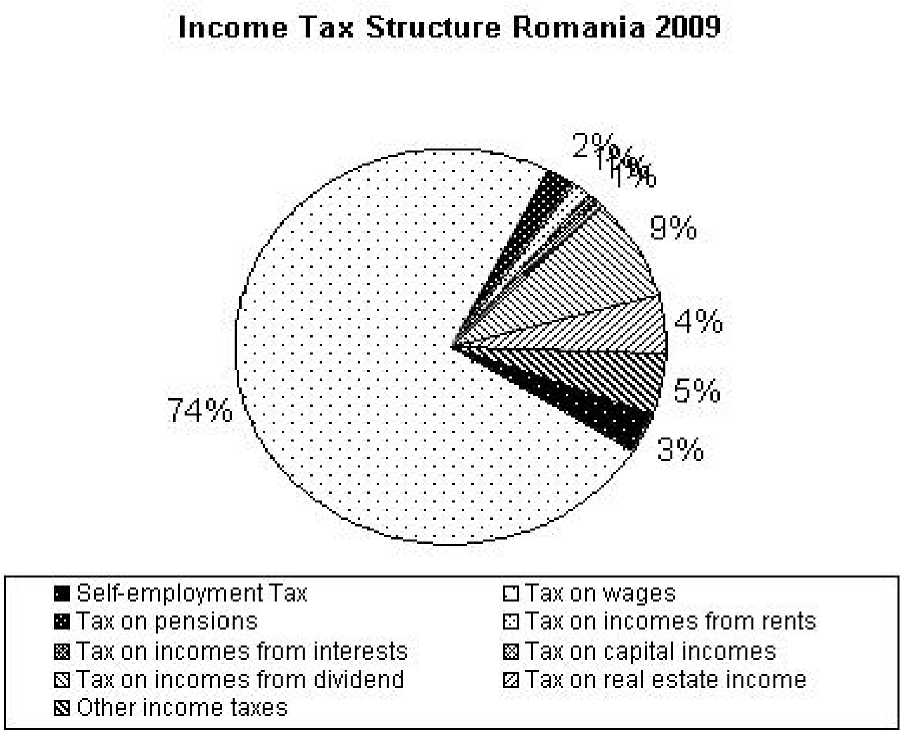

Figure no. 3

It would be of interest to analyse the state budget receivable money from tax on wages in the last 18 years. It would be of interest to assess the short and medium term effects of the various changes in the settlement of salary tax in this period. Unfortunately we can not have a fair and objective analysis on the evolution of these receivable amounts as a tax on wages because there are a number of deficiencies as follows:

- difficulties in getting real public and official information;
- uneven public revenues presentation as tax on wages in those 18 years, e.g. the laws of the state budget of Romania, during the years 1991-1999 show the amount of wages tax separately from the total income tax, while the laws of the state budget of Romania in the period 2000-2009 reflects the amount of total tax revenue including wages tax;
- differences of valuable data expression, e.g. in the period 1990-2005 amounts are expressed in ROL (the old national currency), and starting with 2006 macroeconomic data are expressed in RON (the new national currency), following the rule 1 RON = 10,000 ROL);
- difficulties in determining the influences of fiscal policy decisions on public cash flows versus the influences of incresing prices and inflation. As relevant data below, Romania has faced in '90s with hyperinflation, with inflation rates exceeding even 200%. Inflation kept at high levels for 11 years (over 30%), the last 5 years came with a non exceeding 10 percent rate;

- uncontinuity in government programs of political parties generated by an alternation of social or democratic-liberal governments in 18 years. Political instability coupled by an unstable laws agrravate an pertinent interpretation of economic data.

Table no. 4 Evolution of amounts collected as a tax on wages for Romania 1991-2009 - The data cover the years 1990-1999 with wage income tax provided in the initial state budgets, starting with 2000 fiscal year amounts represent income tax including tax on wages. Data between 1990-2004 are expressed in ROL, and the period 2005-2009 are in RON. (1 USD = 10,000 ROL)

Year	Tax on wages – state budget estimations (bln lei)	Law	Inflation rate %	Year	Tax on wages – state budget estimations (bln lei)	Law	Inflation rate %
1991	58.2	L20/16.02.1991	170,2	2000	16628.0	L76/04.05.2000	45,7
1992	247.1	L36/08.04.1992	210,4	2001	32130.0	L216/26.04.2001	34,5
1993	*No data*	*No data*	256,1	2002	43863.0	L743/ 6.12.2001	22,5
1994	2476.0	L36/9.06.1994	136,7	2003	59154.0	L631/27.11.2002	15,3
1995	3512.7	L22/21.03.1995	32,3	2004	64921.0	L507/ 8.11.2003	11,9
1996	4152.6	L29/06.05.1996	38,8	2005	76887.0	L511/ 2.11.2004	9,0
1997	8697.2	L72/29.04.1997	154,8	*2006*	*8.4442*	L379/ 5.12.2005	6,56
1998	8380.0	L109/03.06.1998	59,1	*2007*	*13.0415*	L 486/ 7.12.2006	4,84
1999	8272.6	L36/08.03.1999	45,8	*2008*	*17.5432*	L388/31.12.2007	7,85
				2009	*20.0061*	L18/ 26.02.2009	~ 5,9

Source: Data processed from the state budget laws 1991-2009. Inflation rate published by National Institute of Statistics of Romania http://www.insse.ro/cms/rw/pages/ipc.ro.do;jsessionid=0a02458c30d56335a8775101476f9357bd66fffff178.e38QbxeSahyTbi0Lah0Le0

3. Conclusions

Taxation methods varies from country to country, but also timely in the same country, depending on the evolution of economic variables and financial policy objectives of governments. Income taxation must pursue an objective of fiscal justice, by customizing the taxation, and a financial objective, by increasing sampling efficiency. The European Commission does not consider prudent and necessary the uniformity of Member States tax systems in the XXI-st century economic configuration. They are free to choose their tax system that matches in the best way their specific needs and difficulties, as long as it implements the rules adopted at Community level.

One short and medium term consequences of introducing the flat income tax is increasing tax competition between European states. Romania hopes to become more attractive as taxation than other European countries with a lower tax rate. Progressive taxation system charge discriminatory, it discourages investments, it destroys jobs and slows economic growth. Progressive income taxation system of individuals is not an economical one, but rather social. The main advantage of progressive taxation is that it does not involve increases in other taxes, introduction of new taxes, prices increases and reductions in budgetary expenditures. Taxation system by flat rate would consist in a lower tax level that will stimulate savings, capital formation and entrepreneurial activities.

A system, where everyone pays the same tax level, eliminates the complicated bureaucracy and stimulates people to work more and to save his income. But these savings should not be forwarded to the luxury goods consumption decreasing productive investments and damaging economic development. Among the taxation systems that are in fiscal practice, the one based on progressive rates fulfils more to tax fairness requirements. On the other hand, progressive system may not change too much purchasing power of certain persons, whether by way of tax avoidance (legal and / or deceptive), they can evade a part of a taxable matter. First, quitting to progressive wages' taxation for proportional tax is another kind of vision of tax fairness, it encourage getting incomes through honest, intensity and quality work. Wages' flat tax does not provide an absolute mathematical fairness, rather it ensure an equal treatment of taxpayers.

I agree with those who support the idea that no matter the type of tax, but its level, ultimately the tax is an assault on the taxpayer. Reducing the tax burden may also occur in the system of progressive taxation and in the regime of flat tax. Usually it is will neglected the essential element: general tax burden. The real problem of taxation is not how to tax, progressive or proportional, but the fiscal arrangement that "socialize" a small part of private property (N. M. Rothbard, "*The Case Against the Flat Tax"*, http://mises.org/rothbard/flattax.pdf). In other words should be interest rather the general level of taxation and not necessarily the calculation of taxes. It is still primary an ethical question and complementary an effective question. In the end, let's punctuate the words of Mr. Cosmin Marinescu who wrote that *"the real source of prosperity lies not in flat tax, by himself, but in a low tax; the option for a certain tax system is not and can not be an objective, scientific one"* (C. Marinescu, http://www.ecol.ro/studii).

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